

Arizona Health Care Cost Containment System

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,975.4	2,217.3	2,217.3 ^{1/}
Personal Services	33,315,200	41,313,400	41,020,800
Employee Related Expenditures	15,090,700	18,088,500	17,845,000
Professional and Outside Services	3,355,800	5,369,800	5,289,500
Travel - In State	61,900	78,100	78,100
Travel - Out of State	24,600	29,200	29,200
Other Operating Expenditures	17,171,800	12,394,000	12,174,400
Equipment	2,080,600	1,964,500	1,964,500
OPERATING SUBTOTAL	71,100,600	79,237,500	78,401,500
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	49,911,400	54,600,300	54,867,700 ^{2/}
Proposition 204 - AHCCCS Administration	8,738,400	6,806,200	6,863,100 ^{3/}
Proposition 204 - DES Eligibility	26,391,700	38,213,800	38,354,100 ^{3/}
Medical Services			
Traditional Medicaid Services	3,088,709,900	3,420,887,100	3,630,655,800 ^{4/}
Proposition 204 Services	1,392,928,500	1,166,614,700	1,047,967,600 ^{3/}
Children's Rehabilitative Services	124,233,900	128,599,100	111,736,400
KidsCare Services	31,073,100	21,622,300	12,081,300
KidsCare II	0	0 ^{5/}	26,825,700 ^{6/}
ALTCS Services	1,380,288,300	1,177,910,000	1,271,574,100 ^{7/8/9/}
Payments to Hospitals			
Disproportionate Share Payments	4,202,300	13,487,100	13,487,100 ^{10/}
DSH Payments - Voluntary Match	0	28,457,100	28,457,100 ^{11/}
Rural Hospitals	13,858,100	13,858,100	13,858,100
Graduate Medical Education	0	90,977,300	160,184,900 ^{12/}
Safety Net Care Pool	0	0 ^{13/}	166,000,000 ^{14/}
AGENCY TOTAL	6,191,436,200	6,241,270,600 ^{15/16/}	6,661,314,500 ^{17-21/}
FUND SOURCES			
General Fund	1,402,751,200	1,350,817,800	1,334,933,400
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	3,161,100	3,221,100	3,303,900
Children's Health Insurance Program Fund	26,539,000	18,162,800	32,139,100
Healthcare Group Fund	1,424,700	2,307,000	1,097,200
Prescription Drug Rebate Fund - State	46,589,600	69,951,000	95,010,900
TPTF Emergency Health Services Account	18,957,900	19,222,900	18,320,100
TTHCF Medically Needy Account	38,295,800	38,295,800	37,389,300
SUBTOTAL - Other Appropriated Funds	134,968,100	151,160,600	187,260,500
SUBTOTAL - Appropriated Funds	1,537,719,300	1,501,978,400	1,522,193,900
<u>Expenditure Authority Funds</u>			
County Funds	284,502,300	294,122,200	295,193,300
Federal Medicaid Authority	4,228,335,600	4,050,692,100	4,384,338,400 ^{25/}
Nursing Facility Provider Assessment Fund	0	0	17,698,000
Political Subdivision Funds	0	40,523,000	124,680,900
Prescription Drug Rebate Fund - Federal	0	165,392,300	178,543,000
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	101,067,400	148,000,000	100,000,000
TPTF Proposition 204 Protection Account	39,811,600	40,367,900	38,472,300
Hospital Assessment Fund	0	0	-- ^{27/}
SUBTOTAL - Expenditure Authority Funds	4,653,716,900	4,739,292,200	5,139,120,600

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
SUBTOTAL - Appropriated/Expenditure Authority Funds	6,191,436,200	6,241,270,600	6,661,314,500
Other Non-Appropriated Funds	125,171,300	198,700,900	45,005,500
Federal Funds	445,582,600	409,041,100	75,825,100
TOTAL - ALL SOURCES	6,762,190,100	6,849,012,600	6,782,145,100 ^{27/}

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS is the state's federally matched Medicaid program and provides acute and long-term care services.

- 1/ Includes 618.8 GF and 694.3 EA FTE Positions funded from Special Line Items in FY 2014.
- 2/ The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 3/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, and Proposition 204 Services Special Line Item includes all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 4/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2014 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 5/ All voluntary payments from political subdivisions to the AHCCCS Administration for KidsCare II and related Children's Health Insurance Program Fund monies are appropriated to the AHCCCS Administration in FY 2013. (General Appropriation Act footnote)
- 6/ Any monies received in excess of \$26,825,700 for KidsCare II by the AHCCCS Administration in FY 2014, including any federal matching monies, are appropriated to the Administration in FY 2014. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 7/ Any Federal Funds that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled shall not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 8/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2014 nonfederal portion of the costs of providing long-term care services is \$244,696,100. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 9/ Any supplemental payments received in excess of \$51,567,500 for nursing facilities that serve Medicaid patients in FY 2014, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2014. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 10/ The \$13,487,100 appropriation for Disproportionate Share Payments for FY 2014 made pursuant to A.R.S. § 36-2903.01O, includes \$4,202,300 for the Maricopa County Healthcare District and \$9,284,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 11/ Any monies received for Disproportionate Share Payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, that are received in FY 2014 by the AHCCCS Administration in excess of \$28,457,100 are appropriated to the Administration in FY 2014. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 12/ Any monies for Graduate Medical Education received in FY 2014, including any federal matching monies, by the AHCCCS Administration in excess of \$160,184,900 are appropriated to the Administration in FY 2014. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 13/ All voluntary payments from political subdivisions to the AHCCCS Administration for the Safety Net Care Pool and related Federal Medicaid Authority monies are appropriated to the AHCCCS Administration in FY 2013. (General Appropriation Act footnote)
- 14/ Any monies received in excess of \$166,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2014, including any federal matching monies, are appropriated to the Administration in FY 2014. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 15/ All monies from the city of Phoenix Access to Care Assessment and other political subdivision hospital assessments, including monies for coverage expansion, and related Federal Medicaid Authority monies are appropriated in FY 2013. The AHCCCS Administration shall report the amounts paid in FY 2013 to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before August 1, 2013 and in FY 2014 on or before February 1, 2014. The AHCCCS Administration shall provide a monthly report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the number of individuals provided health care coverage through this program or include this information in the agency's monthly population by category report. (General Appropriation Act footnote)
- 16/ In addition to these amounts, the FY 2013 General Appropriation Act included a one-time FY 2013 adjustment of \$(705,500) GF for a state employee health insurance premium holiday. (Please see the FY 2013 General Fund Adjustments section.)
- 17/ The non-appropriated portion of the Prescription Drug Rebate Fund is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)

AHCCCS' FY 2014 General Fund spending decreases by \$(15,884,400) or (1.2)%. The \$(15,884,400) includes:

- \$(74,075,800) for formula adjustments.
- \$58,191,400 for mandatory costs associated with federal health care legislation.

These amounts exclude the fiscal impact associated with the Medicaid Expansion/Restoration population and the hospital assessment. Below is an overview of FY 2014 formula adjustments, a discussion of mandatory changes from federal health care legislation, and a discussion of Medicaid expansion and childless adult restoration.

Formula Adjustments

Formula adjustments are comprised of FY 2013 and FY 2014 changes to caseloads, FY 2014 changes in capitation rates, FY 2014 changes to the federal match rate, and adjustments in other appropriated funds which result in an adjustment to the General Fund. *Table 2*, on the following page, summarizes the formula adjustments.

FY 2013 and FY 2014 Caseload Growth

Aside from caseload growth due to federal health care legislation (*see Mandatory Changes Resulting from Federal Health Care Legislation*), Medicaid expansion, and the childless adult restoration (*see Medicaid Expansion and Restoration*), Traditional acute care and Proposition 204 non-childless adult populations are projected to increase by 1.5% and ALTCS populations are projected to increase by 2.0% in FY 2014. The childless

adult population, which has had an enrollment freeze since July 2011, is projected to decline through December 31, 2013. The budget ends this freeze on January 1, 2014. Unlike the childless adult program, the KidsCare program will continue to maintain its freeze throughout FY 2014. The KidsCare II program will end on December 31, 2013. At that time, children on KidsCare and KidsCare II with incomes up to 133% of the Federal Poverty Level (FPL) (\$31,300 for a family of 4) will transfer to the Traditional program.

In addition to forecasted caseload changes, FY 2013 caseloads have been lower than projected. Since the beginning of FY 2013, both the Traditional acute care program and the non-childless adult programs have remained relatively flat or declined slightly. The childless adult population continues to decline but at a slower rate than anticipated.

The lower than projected FY 2013 caseload growth, coupled with changes in the FY 2014 caseloads, results in General Fund savings of \$(67,697,000) in FY 2014. Caseloads, including expansions and the childless adult restoration, are shown in *Table 1*.

FY 2014 2% Capitation Rate Increase

In comparison to caseload growth rates which vary significantly by population, capitation rate inflation is assumed to be 2% above FY 2013 across most capitated programs. Recent budgets have not provided a capitation rate increase. The 2% capitation increase is budgeted to cost an additional \$23,098,700 from the General Fund in FY 2014.

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- 18/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 19/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1 of each year on the preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be no more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or greater for a given fiscal year, the Administration shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 20/ The Expenditure Authority fund source includes voluntary payments made from political subdivisions for Medicaid coverage of certain children and for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2014 costs of KidsCare II, Graduate Medical Education, Disproportionate Share Payments - Voluntary March and Safety Net Care Pool line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 21/ In addition to the appropriation listed above, all monies from the city of Phoenix Access to Care Assessments and other political subdivision hospital assessments, including monies for coverage expansion, and related Federal Medicaid Authority monies are appropriated in FY 2014. (General Appropriation Act footnote)
- 22/ On or before January 6, 2014, the AHCCCS Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received by that date since July 1, 2013. On June 30, 2014, the Administration shall report the same information for all of FY 2014. (General Appropriation Act footnote)
- 23/ Beginning July 1, 2013, the AHCCCS Administration shall report 30 days after the end of each calendar quarter to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the implementation of its required automation interaction with the health insurance exchange and eligibility modifications. (General Appropriation Act footnote)
- 24/ On or before August 1, 2013, the AHCCCS Administration shall provide to the Joint Legislative Budget Committee for review a report on the interagency agreement with the Department of Health Services for providing acute care services for persons enrolled in the Maricopa County Integrated Regional Behavioral Health Authority. (General Appropriation Act footnote)
- 25/ Laws 2013, 1st Special Session, Chapter 10 appropriated "sufficient monies" from the Expenditure Authority fund source for the purposes of implementing A.R.S. § 36-2901.01 and A.R.S. § 36-2901.07. Amount not displayed in table above.
- 26/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.
- 27/ Does not include monies from the Hospital Assessment Fund.

Table 1**JLBC Forecasted Member Months^{1/}**

Population^{2/}	June 2012	June 2013^{3/}	June 2014	'13-'14% Change
Traditional Acute Care ^{4/}	887,077	881,880	968,197	9.8%
Prop 204 Childless Adults ^{5/}	116,403	74,507	130,795	75.5
Other Proposition 204	151,328	147,486	163,117	10.6
Adult Expansion ^{6/}	0	0	24,121	--
KidsCare ^{4/}	10,331	6,742	2,648	(60.7)
KidsCare II ^{4/ 7/}	1,907	22,000	0	(100.0)
ALTCS - Elderly & Physically Disabled ^{8/}	27,592	27,913	28,471	2.0
Emergency Services	60,809	64,985	71,484	10.0
Total Member Months^{9/}	1,255,447	1,225,513	1,388,833^{10/}	13.3

1/ The figures represent June 1 estimates.

2/ Children in the Children's Rehabilitative Services program are included in the Traditional Acute Care, Other Proposition 204, and KidsCare populations.

3/ Represents revised forecast.

4/ Children on KidsCare and KidsCare II with incomes up to 133% of the Federal Poverty Level (FPL) are transferred to the Traditional program on January 1, 2014.

5/ Program frozen until January 1, 2014.

6/ Parents and Childless Adults 100%-133% FPL.

7/ Program ends on December 31, 2013.

8/ The Arizona Long Term Care System (ALTCS) program funded in AHCCCS.

9/ In addition, approximately 25,000 people will receive Medicaid services through the Department of Economic Security's Developmental Disabilities program.

10/ Includes 86,508 added as a result of mandatory federal health care legislation and 103,220 as a result of Medicaid expansion and childless adult restoration.

FY 2014 Federal Match Rate Increase

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. Typically, the federal government provides an approximate 2:1 match for most Medicaid services and a 3:1 match for KidsCare. During FY 2014, the FMAP for Medicaid will increase to 66.84% (0.75% increase). The KidsCare rate will increase to 76.79% (0.53% increase). The formula adjustments include a decrease of \$(56,122,500) in General Fund spending to reflect savings from the federal rate increase.

Tobacco Settlement Backfill

The budget includes an increase of \$48,000,000 from the General Fund and a corresponding decrease from the Tobacco Litigation Settlement Fund in FY 2014 to backfill tobacco settlement funds. In addition to its annual settlement payment, Arizona received a one-time additional settlement payment of \$48,000,000 from tobacco settlement funds in FY 2013. These monies were appropriated in the budget as an FY 2013 supplemental.

Prescription Drug Rebate Fund Increase

The budget includes an increase of \$25,059,600 from the state portion of the Prescription Drug Rebate Fund and a corresponding decrease from the General Fund in FY 2014

based on AHCCCS estimates. Federal health care legislation requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since spring 2011.

Tobacco Tax Decline

The budget includes a decrease of \$(3,704,900) from tobacco tax revenues and a corresponding increase from the General Fund in FY 2014 as a result of declining tobacco tax revenues.

**Mandatory Changes Resulting from
Federal Health Care Legislation**

Federal health care legislation passed in 2010, known as the Affordable Care Act (ACA), has a number of impacts on the AHCCCS and the Department of Health Services (DHS) Medicaid budget in FY 2014. Mandatory changes resulting from federal health care legislation are described below. A summary of the AHCCCS portion of the mandatory costs appears in *Table 2* and the combined AHCCCS and DHS cost appears in *Table 3*.

Table 2**AHCCCS Spending Changes**

(\$ in millions)

Formula Adjustments

FY 2013 and FY 2014 Caseload Growth	\$ (68)
FY 2014 2% Capitation Rate Increase	23
FY 2014 Federal Match Rate Increase	(56)
Tobacco Settlement Backfill	48
Prescription Drug Rebate Fund Increase	(25)
Tobacco Tax Decline	4
Subtotal	\$ (74)

Mandatory Federal Health Care Changes

Child Expansion	\$ 5
Currently Eligible But Not Enrolled	30
Provider Rate Increase	14
Health Insurer Fee	9
Subtotal	\$ 58

Child Expansion

Federal health care legislation requires the expansion for children under age 19 to 133% FPL beginning on January 1, 2014. AHCCCS currently provides coverage for children under age 1 up to 140% FPL, children from 1-5 up to 133% FPL, and children from 6-18 up to 100% FPL at an approximate 2:1 match rate.

The budget assumes that on January 1, 2014, 1,985 children on KidsCare and 10,850 children on KidsCare II will transfer from their respective programs to the Traditional program, and these children will continue to receive the 3:1 federal match rate. In addition to the transfer of children, the budget assumes that the newly eligible children will enroll over a 12-month period; by June 2014, an additional 9,325 children will be added to the program.

Table 3

General Fund and Federal Funds Medicaid Expansion and Childless Adult Cost Estimates Above FY 2013 ^{1/}
(\$ in millions)

		FY 2014 ^{2/}		FY 2015		FY 2016	
		GF	FF ^{3/}	GF	FF	GF	FF
Mandatory Expansion – 133% FPL	AHCCCS	\$ 58	\$ 244	\$ 155	\$ 400	\$ 168	\$ 388
Children, and increase from	DHS	<u>16</u>	<u>34</u>	<u>54</u>	<u>115</u>	<u>62</u>	<u>137</u>
eligible but not enrolled ^{4/}	Total	\$ 74	\$ 278	\$ 209	\$ 515	\$ 230	\$ 525
Full Expansion to 133% FPL and	AHCCCS	\$ (2)	\$ 191	\$ 68	\$ 1,078	\$ 54	\$ 1,380
Childless Adult Restoration ^{5/6/}	DHS	<u>0</u>	<u>52</u>	<u>17</u>	<u>294</u>	<u>14</u>	<u>374</u>
	Total	\$ (2)	\$ 243	\$ 85	\$1,372	\$ 68	\$1,754
Estimated Assessment ^{6/7/}	Total	54	-	196	-	185	-
GF Savings With Assessment ^{8/}	Total	(56)	-	(111)	-	(117)	-

^{1/} Estimates include the following assumptions: 1) 50% of those who are eligible but not enrolled will enroll and 2) the enrollment phase-in is completed in FY 2015.

^{2/} The expansion and restoration begins on January 1, 2014.

^{3/} Includes Federal Medicaid Authority and the federal match for KidsCare. The FY 2014 budget did not appropriate a specific amount for Federal Medicaid Authority for the expansion and restoration. Instead, the FY 2014 Health and Welfare BRB appropriated "sufficient monies for Expenditure Authority" for both AHCCCS and DHS in FY 2014.

^{4/} Includes the mandatory costs that result from federal health care legislation. Mandatory expansion costs were projected to receive a 67.71% match in FY 2015 and FY 2016.

^{5/} Costs are in addition to the mandatory costs. The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 83.6% of the childless adults up to 100% FPL in 2014. These percentages converge to 90% by 2020.

^{6/} Represents JLBC Staff estimates. The FY 2014 budget was not adjusted for expansion/restoration and the hospital assessment.

^{7/} The budget includes a hospital assessment that would cover the cost of the full expansion plus offset the current AHCCCS Proposition 204 General Fund cost, beginning January 1, 2014.

^{8/} Excludes the mandatory cost of federal health care legislation. The FY 2014 budget was not adjusted to reflect the net FY 2014 savings. The Executive's estimated net savings are \$(102) million in FY 2015 and \$(119) million in FY 2016. The latter 2 estimates were used in calculating the 3-year statewide budget projections.

In total, the child expansion is budgeted to cost \$5,328,600 from the General Fund in FY 2014. The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) changes Arizona Revised Statutes to coincide with the federal requirement.

Currently Eligible But Not Enrolled

Beginning on January 1, 2014, individuals will be required to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals will also have access to health insurance through newly created health insurance exchanges, and individuals under 400% FPL will be eligible for premium subsidies.

Most individuals eligible for Medicaid but not enrolled will not be subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance may induce some who are currently eligible but not enrolled to sign up. The budget assumes that 50% of the eligible non-participants will ultimately enroll, and it assumes these individuals enroll over a 15-month period; by June 2014, an estimated 66,009 currently eligible individuals will be added to the program at a \$30,099,100 budgeted General Fund cost. The federal government will provide the regular 2:1 match rate for these new enrollees.

Provider Rate Increase

Federal health care legislation requires that Medicaid reimburse primary care providers (PCPs) 100% of the Medicare rates in 2013 and 2014. The federal government will pay 100% of the cost above what they reimbursed PCPs on July 1, 2009. Since AHCCCS has lowered reimbursement rates for PCPs since then, the state receives the regular match rate for the difference between the rate in effect on December 31, 2014 and the July 1, 2009 rate. The budget includes an increase of \$13,525,800 from the General Fund in FY 2014 for the PCP rate increase. The FY 2013 budget did not include a PCP rate increase.

Health Insurer Fee

Federal health care legislation places an \$8 billion annual fee on the health insurance industry nationwide beginning in 2014. The fee grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee will be allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. Milliman, an actuarial consulting firm, estimates the fee will increase the cost of Medicaid managed care plans by 1.3% in 2014. The budget includes an increase of \$9,237,900 from the General Fund in FY 2014 for the health insurer fee.

Young Adults Formerly in the Foster Care System

Federal health care legislation requires states to provide Medicaid coverage for children who were in foster care

and who qualified for Medicaid as of their eighteenth birthday until age 26. The FY 2014 Health and Welfare BRB changes Arizona Revised Statutes to coincide with the federal requirement. The cost associated with this change is incorporated into the overall budget.

Modified Adjusted Gross Income and Income Disregards

Currently, the rules for counting eligibility for Medicaid vary from state to state and also can differ based on the eligibility category. Beginning in 2014, the ACA requires states to calculate income for most eligibility categories based on modified adjusted gross income (MAGI) and standardizes income disregards. Income disregards refer to what is included in calculating one's income. These changes will ultimately have some impact on who qualifies for AHCCCS, but it is not yet clear how these changes will impact the cost of the AHCCCS program. To coincide with federal health care legislation, the FY 2014 Health and Welfare BRB changes Arizona Revised Statutes so that most eligibility categories are determined using the MAGI methodology.

Disproportionate Share Hospital Payments

Federal health care legislation reduces Medicaid Disproportionate Share Hospital (DSH) payments nationwide by \$500 million in 2014 and \$600 million in 2015, or about 5% of overall payments. The reductions increase to \$5.6 billion by 2019, which is about 50% of the current nationwide funding level.

Preliminary information indicates that Arizona's share of the reduction is estimated at \$7,690,300 in 2014. This may have an impact on voluntary match payments for DSH but is not expected to have an impact on the \$13,487,100 appropriated in the Disproportionate Share Payments Special Line Item (SLI) or revenues distributed to the General Fund (*see Disproportionate Share Payments SLI and DSH Payments - Voluntary Match SLI for additional information*).

Medicaid Expansion and Restoration

In addition to the mandatory expansion components, federal health care legislation allows states to expand Medicaid coverage for adults up to 133% FPL beginning on January 1, 2014 and receive a higher match rate. The federal government will pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in 2014 to 2016. The federal share will gradually decline to 90% by 2020.

The childless adult population has had an enrollment freeze since July 2011. The FY 2014 budget includes both the adult Medicaid expansion and the childless adult restoration. While the childless adult population from 0-100% FPL will not receive the 100% match rate, it will receive a higher match rate than the standard 2:1 match.

The increased match starts at 83.6% in 2014 and increases to 90% by 2016.

The FY 2014 Health and Welfare BRB does not specify a specific amount from Expenditure Authority funds for these populations; instead it appropriates "sufficient monies" from Expenditure Authority funds in FY 2014 to pay for the expansion and restoration. It also discontinues the expansion if any of the following occur: 1) the federal matching rate for adults from 100%-133% FPL or childless adults falls below 80%; 2) the maximum amount that can be assessed from the hospital assessment (*see Hospital Assessment section*) and still retain the same federal match rate, along with any other appropriated monies, is insufficient to pay for the newly eligible populations; or 3) the Federal ACA is repealed. The BRB also adds intent language regarding the purposes of expanded Medicaid coverage.

Together, the Adult Expansion and Childless Adult Restoration is expected to add 103,000 persons to Medicaid by the end of FY 2014 and 250,000 by the end of FY 2015. The number of people estimated to enroll due to the expansion and restoration is displayed in *Table 4*.

Table 4

Total Medicaid Population Increase ^{1/}

	<u>June 2014</u>	<u>June 2015</u>	<u>June 2016</u>
Mandatory Expansion	87,000	168,000	173,000
Childless Adult	79,000	191,000	200,000
Restoration			
Adult Expansion 100%- 133% FPL	<u>24,000</u>	<u>59,000</u>	<u>61,000</u>
Total	190,000	418,000	434,000

^{1/} All estimates reflect cumulative increase resulting from federal health care legislation. Population changes which would have occurred absent federal legislation are not included.

Hospital Assessment

To fund the expansion, the budget includes a hospital assessment. Monies raised by the assessment can be used as state match monies and will be used to fund the Adult Expansion and the Proposition 204 populations. The FY 2014 Health and Welfare BRB includes the following provisions regarding the assessment:

- Requires the AHCCCS Director to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Proposition 204 and Adult Expansion populations beginning January 1, 2014.
- Provides guidance and requirements for the process of designing the assessment.

- Repeals the assessment if any of the following conditions are met: 1) the federal matching rate for adults from 100%-133% FPL or childless adults falls below 80%; 2) the maximum amount that can be assessed and still retain a federal match, along with any other appropriated monies, is insufficient to pay for the Adult Expansion and Childless Adult restoration; or 3) the Federal ACA is repealed.
- Establishes the non-appropriated Hospital Assessment Fund.
- Adds an intent statement regarding the purpose of the assessment.
- Adds the following Legislative intent statements: 1) the requirement that the hospital assessment is subject to approval by the federal government does not adopt federal law by reference; 2) the requirement that AHCCCS establish a hospital assessment does not delegate legislative taxing authority to AHCCCS; and 3) the hospital assessment is to be used for the benefit of the hospitals for the purpose of providing health care for persons eligible due to the assessment.

At the time of this writing, AHCCCS is still working on developing the assessment. Since details are still being worked on, it is uncertain how much the assessment will generate, and the Hospital Assessment Fund is not incorporated into the Expenditure Authority. The JLBC Staff, however, estimates that approximately \$54 million would need to be collected to fund the Adult Expansion and Proposition 204 populations from January - June 2014.

Operating Budget

The budget includes \$78,401,500 and 904.2 FTE Positions in FY 2014 for the operating budget. These amounts consist of:

	<u>FY 2014</u>
General Fund	\$28,735,000
Healthcare Group Fund	1,097,200
Children's Health Insurance Program (CHIP) Fund	1,683,500
Prescription Drug Rebate Fund (PDRF) - State	116,100
Federal Medicaid Authority (FMA)	46,769,700

These amounts fund the following adjustments:

Discontinue Healthcare Group

The budget includes a decrease of \$(1,215,800) from the Healthcare Group Fund in FY 2014 to discontinue Healthcare Group.

The FY 2014 Health and Welfare BRB repeals Healthcare Group on January 1, 2014 and repeals the Healthcare Group Fund on January 1, 2015. It also prohibits

AHCCCS from enrolling new members or businesses in Healthcare Group after July 31, 2013.

Healthcare Group was designed to provide access to community-rated healthcare insurance for the small business community. Federal health care legislation creates health care exchanges which are expected to provide health insurance beginning in 2014. The exchanges are expected to provide a marketplace for uninsured individuals to obtain health insurance as well as provide community-rated health insurance for small business owners. Beginning on January 1, 2014, it is assumed that currently enrolled members in Healthcare Group will shift into health insurance offered in the healthcare exchange, making Healthcare Group no longer necessary.

Statewide Adjustments

The budget includes an increase of \$379,800 in FY 2014 for statewide adjustments. This amount consists of:

General Fund	141,400
Healthcare Group Fund	6,000
CHIP Fund	10,400
PDRF - State	300
Federal Medicaid Authority	221,700

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$54,867,700 and 885 FTE Positions in FY 2014 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	25,487,800
Federal Medicaid Authority	29,379,900

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$267,400 in FY 2014 for statewide adjustments. This amount consists of:

General Fund	112,300
Federal Medicaid Authority	155,100

Through an Intergovernmental Agreement, DES performs eligibility determination for AHCCCS programs. This SLI funds those costs for all Traditional Acute Care programs except "Ticket to Work," women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program, and aged, blind, and disabled adults.

Proposition 204 - AHCCCS Administration

The budget includes \$6,863,100 and 128 FTE Positions in FY 2014 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,320,500
Federal Medicaid Authority	4,542,600

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$56,900 in FY 2014 for statewide adjustments. This amount consists of:

General Fund	23,900
Federal Medicaid Authority	33,000

Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS' administration costs of the Proposition 204 program.

Proposition 204 - DES Eligibility

The budget includes \$38,354,100 and 300.1 FTE Positions in FY 2014 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,416,000
Budget Neutrality Compliance Fund	3,303,900
Federal Medicaid Authority	17,634,200

These amounts fund the following adjustments:

Statutory Adjustment

The budget includes a decrease of \$(82,800) from the General Fund and a corresponding increase from the Budget Neutrality Compliance Fund (BNCF) in FY 2014 to reflect a statutorily-required increase of county contributions in FY 2014 (A.R.S. § 11-292O). *(Please see Table 6 for contributions by county.)*

Statewide Adjustments

The budget includes an increase of \$140,300 in FY 2014 for statewide adjustments. This amount consists of:

General Fund	58,900
Federal Medicaid Authority	81,400

Background – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population.

This line item contains funding for eligibility costs in DES for the Proposition 204 program.

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children's Rehabilitative Services program. Overall formula adjustments are below. A description of program components can be found in the *Other Issues* section.

Traditional Medicaid Services

The budget includes \$3,630,655,800 in FY 2014 for Traditional Medicaid Services. This amount consists of:

General Fund	913,059,400
County Funds	50,497,200
PDRF - State	88,397,500
TTHCF Medically Needy Account	37,389,300
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,374,799,200
PDRF - Federal	166,318,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(27,027,900) in FY 2014 for formula adjustments. This amount consists of:

General Fund	(48,379,300)
County Funds	(404,500)
PDRF - State	24,656,200
TTHCF Medically Needy Account	(906,500)
Federal Medicaid Authority	(16,879,200)
PDRF - Federal	14,885,400

The formula adjustments include:

- 1.5% enrollment growth after the continuation of the FY 2013 caseload savings.
- A change in the federal match rate from 66.09% to 66.84%.
- 2% capitation rate increase.
- \$(404,500) decrease in Maricopa County Acute Care contribution under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$24,656,200 increase to the state portion of the PDRF and a corresponding General Fund decrease.
- \$14,885,400 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- \$(906,500) decrease from the TTHCF Medically Needy Account due to declining tobacco taxes and a corresponding General Fund increase.

Mandatory Federal Health Care Legislation

The budget includes an increase of \$236,796,600 in FY 2014 for mandatory costs associated with Federal Health Care Legislation. This amount consists of:

General Fund	46,633,600
Federal Medicaid Authority	190,163,000

Mandatory changes due to federal health care legislation include the expansion of eligibility for children under age 19 up to 133% FPL, the transition of children from 100%-133% FPL from KidsCare and KidsCare II to Traditional Medicaid services, an increase of individuals who are currently eligible but not enrolled, a primary care provider rate increase, and the health insurer fee. An estimated 1,985 from KidsCare and 10,850 from KidsCare II are expected to transfer to Traditional Medicaid services beginning on January 1, 2014. By June 2014, an estimated 52,590 individuals who had previously been eligible but not enrolled and an estimated 9,325 newly eligible children between 100%-133% FPL are expected to enroll in Medicaid.

Background – Traditional Medicaid Services funds the following populations (*see Chart 1*):

- Children less than 1, up to 140% FPL.
- Children aged 1-5, up to 133% FPL.
- Children aged 6-18, up to 100% FPL through December 31, 2013 and up to 133% FPL thereafter.
- Pregnant women, up to 150% FPL.
- Aged, blind, and disabled adults, up to 75% FPL.
- Parents, up to 22% FPL.
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS' Well Women Healthcheck program up to 250% FPL.
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL ("Ticket to Work").

Proposition 204 Services

The budget includes \$1,047,967,600 in FY 2014 for Proposition 204 Services. This amount consists of:

General Fund	138,506,000
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	38,472,300
TPTF Emergency Health Services Account	18,320,100
Federal Medicaid Authority	752,669,200

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(168,812,400) in FY 2014 for formula adjustments. This amount consists of:

General Fund	(62,211,600)
TPTF Proposition 204 Protection Account	(1,895,600)
Emergency Health Services Account	(902,800)
Federal Medicaid Authority	(103,802,400)

The formula adjustments include:

- Restoration of the childless adults beginning on January 1, 2014.
- 1.5% enrollment growth for the non-childless adult Proposition 204 populations after the continuation of the FY 2013 caseload savings.
- A change in the federal match rate from 66.09% to 66.84%.
- 2% capitation rate increase.
- \$48,000,000 increase from the General Fund and a corresponding decrease from the Tobacco Litigation Settlement Fund to offset a one-time increase from the Tobacco Settlement Litigation Fund in FY 2013.
- \$(1,895,600) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco taxes and a corresponding General Fund increase.
- \$(902,800) decrease from the TPTF Emergency Health Services Account due to declining tobacco taxes and a corresponding General Fund increase.

Mandatory Federal Health Care Legislation

The budget includes an increase of \$50,165,300 in FY 2014 for mandatory costs associated with Federal Health Care Legislation. This amount consists of:

General Fund	9,694,400
Federal Medicaid Authority	40,470,900

Mandatory changes due to federal health care legislation include an increase of individuals who are currently eligible but not enrolled, a primary care provider rate increase, and the health insurer fee. By June 2014, an estimated 13,419 individuals who had previously been eligible but not enrolled are expected to enroll in Medicaid.

Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL (*see Chart 1*). The Childless Adult program has had an enrollment freeze since July 8, 2011. The budget ends the freeze on January 1, 2014.

Children's Rehabilitative Services

The budget includes \$111,736,400 in FY 2014 for Children's Rehabilitative Services (CRS). This amount consists of:

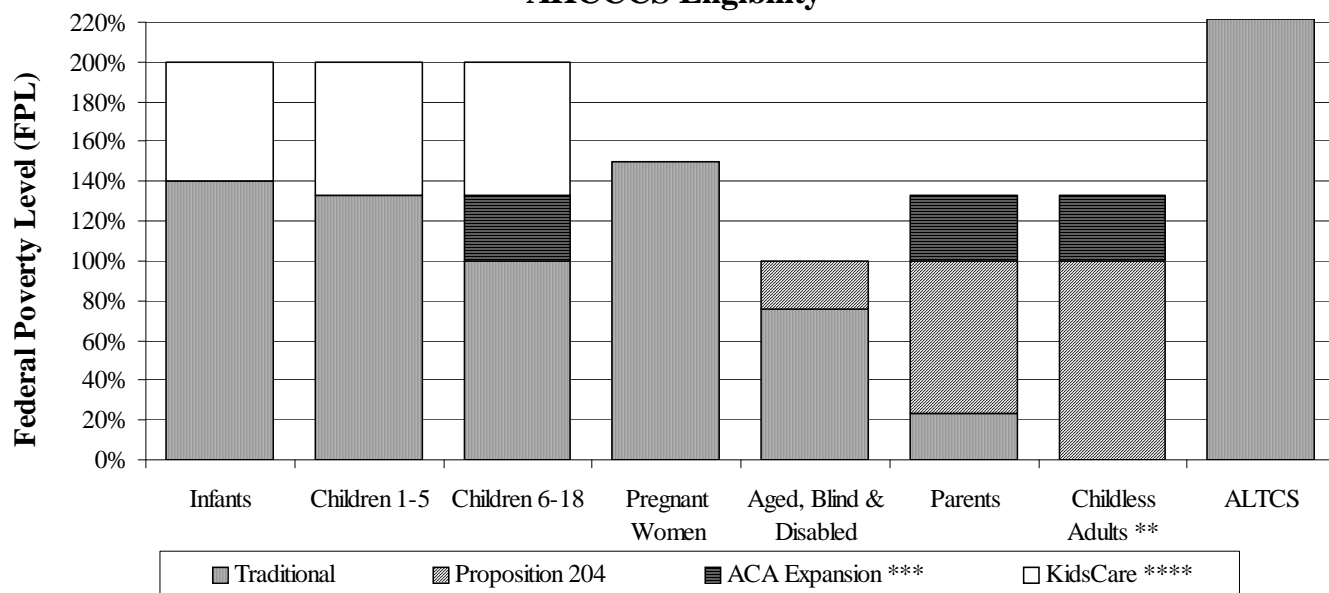
General Fund	37,049,000
Federal Medicaid Authority	74,687,400

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(16,862,700) in FY 2014 for formula adjustments. This amount consists of:

Chart 1

AHCCCS Eligibility*

- * Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the "Ticket to Work" program receive coverage to 250% FPL.
 ** The Childless Adult Program has had an enrollment freeze since July 8, 2011. The freeze will be lifted on January 1, 2014.
 *** Beginning January 1, 2014.
 **** The KidsCare program has had an enrollment freeze since January 1, 2010. From May 1, 2012 to December 31, 2013, the KidsCare II program will enroll approximately 22,000 per month.

General Fund	(6,565,400)
Federal Medicaid Authority	(10,297,300)

savings, an increase to the federal match rate, and a 2% capitation rate increase.

The formula adjustments include 5.5% enrollment growth after the continuation of the FY 2013 caseload savings, an increase to the federal match rate, and a 2% capitation increase. This would result in approximately 25,000 members per month being served in June 2014.

The CRS program offers health care to children with handicapping or potentially handicapping conditions.

KidsCare Services

The budget includes \$12,081,300 in FY 2014 for KidsCare Services. This amount consists of:

General Fund	2,549,700
CHIP Fund	9,531,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(11,844,500) in FY 2014 for formula adjustments. This amount consists of:

General Fund	(3,117,500)
CHIP Fund	(8,727,000)

The formula adjustments include a (30)% enrollment decline after the continuation of the FY 2013 caseload

Mandatory Federal Health Care Legislation

The budget includes an increase of \$2,303,500 in FY 2014 for mandatory costs associated with Federal Health Care Legislation. This amount consists of:

General Fund	534,600
CHIP Fund	1,768,900

Mandatory changes due to federal health care legislation include a primary care provider rate increase. Federal health care legislation expands eligibility for the Traditional program up to 133% FPL beginning January 1, 2014. At that time, children from 100% to 133% FPL will transition from the KidsCare program to the Traditional program resulting in a decline of 1,985 children.

Background – The KidsCare program, also referred to as the Children's Health Insurance Program (CHIP), provides health coverage to children in families with incomes below 200% FPL, but above the levels required for the regular AHCCCS program. The KidsCare program receives an approximate 3 to 1 match rate, which is higher than the regular 2 to 1 match in the other programs. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program.

KidsCare II

The budget includes \$26,825,700 in FY 2014 for KidsCare II. This amount consists of:

Political Subdivision Funds	5,901,700
CHIP Fund	20,924,000

These amounts fund the following adjustments:

Change to Appropriated Funds

The budget includes an increase of \$26,825,700 in FY 2014 for KidsCare II. This amount consists of:

Political Subdivision Funds	5,901,700
CHIP Fund	20,924,000

The KidsCare II program expands access to KidsCare from May 1, 2012 to December 31, 2013. KidsCare II was initially funded by voluntary payments made by political subdivisions, and the voluntary payments are matched by Federal Funds. The program initially limited eligibility to 175% FPL. During spring 2013, AHCCCS received federal approval to expand the KidsCare II program using monies collected from a Phoenix hospital assessment. Under the expansion, the eligibility limit was increased to 200% FPL. Monies collected from the hospital assessment will be matched by Federal Funds. Like the original program, the majority of the payments are used for the Safety Net Care Pool (*see Safety Net Care Pool and Safety Net Care Pool and Coverage Expansion section*). Since not all aspects of this program had been finalized during the budget process, these monies are not included in this line item.

In prior budgets, all monies received by AHCCCS for KidsCare II have been non-appropriated. The FY 2014 budget converts KidsCare II monies to the regular budget structure. Monies in FY 2012 and FY 2013 appear in the Other Non-Appropriated Funds line in the appropriation table above.

ALTCS Services

The budget includes \$1,271,574,100 in FY 2014 for Arizona Long Term Care System (ALTCS) expenditures. This amount consists of:

General Fund	162,226,100
County Contributions	244,696,100
PDRF - State	6,497,300
Federal Medicaid Authority	828,232,100
PDRF - Federal	12,224,500
Nursing Facility Provider Assessment Fund	17,698,000

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$26,617,500 in FY 2014 for formula adjustments. This amount consists of:

General Fund	(1,697,000)
County Contributions	(308,800)
PDRF – State	403,400
Federal Medicaid Authority	29,954,600
PDRF – Federal	(1,734,700)

The formula adjustments include:

- 2.0% enrollment growth after continuation of the FY 2013 caseload savings. Caseloads are projected to grow to a level of 28,500 in June 2014 (*see Table 1*).
- A change in the federal match rate from 66.09% to 66.84%.
- 2% capitation rate increase.
- \$403,400 increase to the state portion of the PDRF and corresponding decreases of \$(182,100) in County Contributions and \$(221,300) from the General Fund.
- \$(1,734,700) decrease to the federal portion of the PDRF and a corresponding Federal Medicaid Authority increase.

Mandatory Federal Health Care Legislation

The budget includes an increase of \$15,479,100 in FY 2014 due to mandatory federal health legislation requirements of a primary care provider rate increase and new health insurer fee. This amount consists of:

General Fund	1,328,800
County Contributions	1,784,400
Federal Medicaid Authority	12,365,900

Nursing Facility Assessments

The budget includes an increase of \$51,567,500 in FY 2014 for supplemental payments to nursing facilities. This amount consists of:

Nursing Facility Provider Assessment Fund	17,698,000
Federal Medicaid Authority	33,869,500

ALTCS enrollees that require 24-hour nursing care are treated at nursing facilities while individuals with less chronic conditions receive assisted living or home and community based services. Laws 2012, Chapter 213 requires AHCCCS to charge a provider assessment on health items and services provided by nursing facilities that are not paid for by Medicare. Charges are then used to obtain a federal match and make supplemental payments to facilities for covered AHCCCS expenditures.

Each facility that provides care to ALTCS enrollees receives supplemental payments, though some are exempt from paying the assessment. Non-exempt facilities with less than 43,500 Medicaid bed days per year are charged

\$7.50 per day of care provided while facilities with more than 43,500 Medicaid bed days are charged \$1 per day. Monies in FY 2013 appear in the Other Non-Appropriated Funds and Federal Funds lines in the appropriation table above. The FY 2014 budget converts these funds to the regular budget structure.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$25,508 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$8,613 per person.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2012, AHCCCS estimates that client contributions paid for 7.1% of care.

Payments to Hospitals

These line items represent payments made directly to hospitals separate from the traditional capitated or fee-for-service system.

Disproportionate Share Payments

The budget includes \$13,487,100 in FY 2014 for Disproportionate Share Hospital (DSH) Payments. This amount consists of:

General Fund	3,042,600
Federal Medicaid Authority	10,444,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(143,900) from the General Fund and a corresponding increase from Federal Medicaid Authority in FY 2014 due to a change in the federal match rate.

Background – This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. *Table 5* displays the allocation of Disproportionate Share Funding. The state only appropriates General Fund dollars for DSH payments to private hospitals (\$9,284,800 in total funds in FY 2014). Publicly operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs result in the drawdown of Federal Funds. Typically the state retains all of the Federal Funds with the exception of \$4,202,300 which is allocated to Maricopa Integrated Health System (MIHS).

The FY 2014 Health and Welfare BRB limits the DSH payment attributed to MIHS in FY 2014 to \$89,877,700. This limitation allows MIHS to use monies they spend on uncompensated care above that amount as a match for the Safety Net Care Pool (SNCP) and KidsCare II programs and results in the loss of some federal funding which would have otherwise been distributed to the General Fund. After MIHS has exhausted all monies above \$89,877,700 which the federal government allows to be used for SNCP, the FY 2014 Health and Welfare BRB requires that any additional monies be deposited into the General Fund.

Table 5

Disproportionate Share Hospital Program

<u>Eligible Funding</u>	<u>FY 2013</u>	<u>FY 2014</u>
Public Hospitals	\$ 89,877,700	\$ 89,877,700
Arizona State Hospital (ASH)	26,724,700	26,724,700
Private Hospitals	9,284,800	9,284,800
Total Allocations	\$125,887,200	\$125,887,200
<u>Distribution of Funding</u>		
Federal DSH to GF (Maricopa)	\$ 64,460,900	\$ 60,424,800
Federal DSH to GF (ASH)	16,400,300	17,443,600
Subtotal	\$ 80,861,200	\$ 77,868,400
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	9,284,800	9,284,800
Total	\$ 94,348,300	\$ 91,355,500

DSH Payments - Voluntary Match

The budget includes \$28,457,100 in FY 2014 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds (PSF)	9,325,400
Federal Medicaid Authority	19,131,700

These amounts fund the following adjustments:

Formula Adjustment

The budget includes an increase of \$25,800 from Political Subdivision Funds and a corresponding decrease from Federal Medicaid Authority in FY 2014 due to a change in the federal match rate.

Background – Beginning in FY 2010, the Health and Welfare BRB has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. In FY 2012, 6 hospitals contributed the state match for \$7,618,600 in total DSH payments.

The FY 2013 budget converted the Voluntary Match payments to the regular budget structure. Payments in FY 2012 appear in the Other Non-Appropriated Funds line in the appropriation table above.

Rural Hospitals

The budget includes \$13,858,100 in FY 2014 for Rural Hospitals. This amount consists of:

General Fund	4,541,300
Federal Medicaid Authority	9,316,800

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(214,800) from the General Fund and a corresponding increase from Federal Medicaid Authority in FY 2014 due to a change in the federal match rate.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2012, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from Critical Access Hospitals.

Graduate Medical Education

The budget includes \$160,184,900 in FY 2014 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	52,482,600
Federal Medicaid Authority	107,702,300

These amounts fund the following adjustments:

Increased Funding

The budget includes an increase of \$69,207,600 in FY 2014 for anticipated increased funding reflecting current expenditures.

Political Subdivision Funds	21,259,200
Federal Medicaid Authority	47,948,400

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In 2011, 6 hospitals received a total of \$113,352,900 for Graduate Medical Education.

The FY 2013 budget converted Graduate Medical Education to the regular budget structure. Payments in FY

2012 appear in the Other Non-Appropriated Funds line in the appropriation table above.

Safety Net Care Pool

The budget includes \$166,000,000 in FY 2014 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	56,971,200
Federal Medicaid Authority	109,028,800

These amounts fund the following adjustments:

Change to Appropriated Funds

The budget includes an increase of \$166,000,000 in FY 2014 for SNCP. This amount consists of:

Political Subdivision Funds	56,971,200
Federal Medicaid Authority	109,028,800

In prior budgets, all monies received by AHCCCS for SNCP have been non-appropriated. The FY 2014 budget converts SNCP monies to the regular budget structure. Monies in FY 2012 and FY 2013 appear in the Other Non-Appropriated Funds line in the appropriation table above. This amount reflects a half year of funding.

Background – In April 2012, AHCCCS received federal approval to establish the SNCP program to fund unreimbursed costs incurred by hospitals in caring for the uninsured and AHCCCS recipients through December 31, 2013. SNCP uses voluntary monies from political subdivisions to draw down federal matching monies at a 2:1 match. The funds are then distributed to participating hospitals. As a federal condition of participating in the program, some of the monies must be used for Medicaid coverage. Initially, these monies were used to expand KidsCare (*see KidsCare II section*).

During spring 2013, AHCCCS received federal approval to expand SNCP using monies collected from a Phoenix hospital assessment. The expansion is projected to generate an additional \$264,000,000 in total fund distributions in FY 2014. Since the details were still being finalized during the budget process, these monies are not included in this line item (*see Safety Net Care Pool and Coverage Expansion in Other Issues for additional details*).

While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allows Phoenix Children's Hospital to continue to participate in the SNCP program through December 31, 2017 if approved by the federal government.

At the time of this writing, it is unclear which hospitals will receive monies for SNCP in FY 2014.

Other Information

FY 2013 Supplemental

The budget includes an increase of \$48,000,000 from the Tobacco Litigation Settlement Fund in FY 2013 and a corresponding decrease from the General Fund in FY 2013 as a result of a one-time increase of tobacco settlement monies in FY 2013.

Health and Welfare BRB

In addition to the previously mentioned items, the FY 2014 Health and Welfare BRB includes the following provisions:

Changes to Rates and Services

Administrative Costs

Section 24 continues to reduce the risk contingency rate setting for all managed care organizations by 50% and impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.

A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is not necessary, or is insufficient, it is retained as profit (or loss) and there is no limit. Previously, risk contingency was set at 2%.

Capitation Rates

Section 48 states that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 3% in FY 2015 and FY 2016.

Ambulance Rates

Sections 3 and 25 permanently reset ambulance reimbursement rates to 80% of the DHS-set rate, except that from October 1, 2013 to September 30, 2014, they will remain at 68.59% and from October 1, 2014 to September 30, 2015 they will be 74.74%.

Outpatient Hospital Fee Schedules

Section 6 permanently resets the inpatient prospective per diem rates to the amounts payable for those services on October 1, 2011. This is the same rate that was charged in FY 2013.

Transplants

Section 7 permanently restores coverage for 5 types of transplants which were restricted by Laws 2010, 7th Special Session, Chapter 10. Laws 2011, Chapter 31 effectively lifted the restriction but the provision was set to expire on December 31, 2013.

Well Exams

Section 7 also restores coverage for the well exams which were eliminated by Laws 2010, 7th Special Session, Chapter 10.

Coverage Exclusions

Section 40 allows AHCCCS to not withstand coverage exclusions which are in permanent law in order to cover outpatient health services, medical supplies, durable medical equipment, orthotics, and prosthetic devices if the preferred treatment option is consistent with Medicare guidelines and are less expensive than all other treatment options or surgical procedures to treat the same diagnosed condition. AHCCCS is required to report by January 1, 2016 on whether cost savings were achieved.

Erroneous Payments

Section 26 continues to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Credits may be used to pay for the AHCCCS program in the year they are received.

Additionally, Section 47 continues to state that it is the intent of the Legislature that AHCCCS comply with the Federal False Claims Act, achieve the maximum savings as possible under the federal act, and to consider best available technologies to reduce fraud.

Available Funding

Section 46 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

Continuation

Sections 11, 12, 53, and 54 continue AHCCCS through July 1, 2023, retroactive to July 1, 2013. Current law terminates AHCCCS on July 1, 2013.

Reports

Section 31 requires AHCCCS to submit a report by December 1, 2013 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

Section 34 requires AHCCCS to submit a report by December 31, 2013 on the cost, reimbursement, and utilization of air ambulances for AHCCCS enrollees.

Section 37 requires AHCCCS, in conjunction with DHS, to submit a report by January 1, 2014 on hospital costs and charges.

Section 39 creates the Medicaid Circuit Breaker and Outcomes Study Committee. The committee is required to report by October 1, 2014 on the potential impact on AHCCCS of a decrease in federal funding. By January 1, 2016, the committee is required to report on the potential impact of restoring Medicaid coverage and the hospital assessment.

By October 1, 2013 and annually through 2017, Section 41 requires AHCCCS to report on the change in uncompensated hospital costs and hospital profitability.

Section 41 also requires AHCCCS to submit a report by August 1, 2013, and annually through 2017, on the amount contributed for the assessment by each hospital and the estimated payment each hospital received.

Other

Cost Sharing

Section 36 requires AHCCCS to pursue the maximum cost sharing allowable under federal law for AHCCCS enrollees. If approved by the federal government, AHCCCS is required to charge the adult expansion population a premium of up to 2% of their income, a co-pay of \$200 for non-emergency use of the emergency room if the person is not admitted to the hospital, and a \$200 co-pay for non-emergency use of the emergency room if there is a community health center, rural health center, or urgent care facility within 20 miles of the hospital. AHCCCS is exempted from rulemaking for this purpose for 1 year.

Recovery Audits

Section 9 allows AHCCCS to deposit monies from first party payors and statewide recovery audit contractors into the Third Party Liability Fund. It also changes the name of the fund to Third Party Liability and Recovery Fund.

Proposition 204 Services

Section 14 extends hospitals' authority to partner with political subdivisions to provide coverage for individuals who no longer qualify for Proposition 204 services from September 30, 2013 to December 31, 2013.

Safety Net Care Pool and Coverage Expansion

During spring 2013, the federal government approved an expansion of the Safety Net Care Pool using monies from a Phoenix hospital assessment. The assessment will obtain a 66% federal match and is conditional on using some of the monies to fund additional services. AHCCCS will be required to use some of the funding for KidsCare II as well as to continue coverage for parents whose children age out of the Medicaid system (and, therefore, are classified as "childless adults").

The SNCP expansion is expected to distribute \$121,000,000 in total funds for SNCP during FY 2013 and \$264,000,000 in total funds in FY 2014. An additional \$107,424,300 in total funds is expected to be used to expand KidsCare and to provide coverage for parents whose children age out of the Medicaid system. The budget appropriates these monies in FY 2013 and FY 2014 but did not include an amount. At the time the budget was passed, it was uncertain how much would be distributed in FY 2013 or FY 2014. Therefore, the actual SNCP and KidsCare II payments in FY 2014 are expected to be higher than in the table above (*see the KidsCare II and*

Safety Net Care Pool section for additional details.) This program ends on December 31, 2013.

Hospital Reimbursement

Laws 2013, Chapter 202 requires AHCCCS to continue to use a prospective tiered per diem methodology for inpatient hospital reimbursement through September 30, 2014. The law further requires that AHCCCS obtain legislative approval prior to adopting a different methodology of hospital reimbursement.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 6*.

The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2012 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2014, this provision provides 3 counties with a total of \$4,283,000 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2014, this provision provides 3 counties with a total of \$16,108,300 in relief.
5. If any county could still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2014 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$38.91 in FY 2014). In FY 2014 this provision provides 7 counties with a total of \$10,709,000.

In FY 2014, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,100,300 in relief to 10 counties.

The FY 2014 Health and Welfare BRB requires AHCCCS to transfer any excess monies back to the counties on December 31, 2014 if the counties' portion of the state match exceeds the proportion allowed in order to comply with the ACA.

Table 6

County Contributions

County	FY 2013				FY 2014			
	BNCF	Acute	DUC	ALTCS	BNCF	Acute	DUC	ALTCS
Apache	\$ 106,200	\$ 268,800	\$ 87,300	\$ 611,200	\$ 108,900	\$ 268,800	\$ 87,300	\$ 613,500
Cochise	198,000	2,214,800	162,700	5,266,800	203,100	2,214,800	162,700	5,179,900
Coconino	195,400	742,900	160,500	1,834,500	200,400	742,900	160,500	1,841,200
Gila	80,200	1,413,200	65,900	2,146,400	82,300	1,413,200	65,900	2,126,000
Graham	57,000	536,200	46,800	1,434,200	58,500	536,200	46,800	1,427,300
Greenlee	14,700	190,700	12,000	192,800	15,000	190,700	12,000	128,800
La Paz	30,400	212,100	24,900	625,200	31,200	212,100	24,900	691,300
Maricopa	0	20,225,200	0	148,533,600	0	19,820,700	0	149,698,100
Mohave	228,000	1,237,700	187,400	8,000,100	233,900	1,237,700	187,400	7,952,700
Navajo	149,500	310,800	122,800	2,529,300	153,300	310,800	122,800	2,538,600
Pima	1,358,300	14,951,800	1,115,900	39,316,400	1,393,200	14,951,800	1,115,900	39,129,200
Pinal	265,800	2,715,600	218,300	15,081,500	272,600	2,715,600	218,300	15,246,800
Santa Cruz	62,800	482,800	51,600	1,904,900	64,400	482,800	51,600	1,908,200
Yavapai	251,000	1,427,800	206,200	8,450,900	257,500	1,427,800	206,200	8,382,500
Yuma	223,800	1,325,100	183,900	7,292,700	229,600	1,325,100	183,900	7,832,000
Subtotal	\$3,221,100	\$48,255,500	\$2,646,200	\$243,220,500	\$3,303,900	\$47,851,000	\$2,646,200	\$244,696,100
Total	\$297,343,300				\$298,497,200			

Program Components

Traditional Medicaid, Proposition 204, KidsCare, CRS, and ALTCS services include the following costs:

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2014, the average capitation rate is expected to be approximately \$314 per member per month (or \$3,768 annually). Of that amount, \$102 is from state match and \$212 from Federal Medicaid Authority.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 4 programs: 1) federally-mandated services for Native Americans living on-reservations; 2) rural Federally Qualified Health Centers (FQHC); 3) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 4) federally-mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this

includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on a certain percent (76.7% in 2014) of the estimated drug costs.

Proposition 202 – Trauma and Emergency Services Fund

In April 2012, AHCCCS received federal approval to obtain a federal match for Proposition 202 - Trauma and Emergency Services Fund. This fund consists of tribal gaming monies received from the Arizona Benefits Fund. Currently, hospitals receive approximately \$20,000,000 annually from this fund. AHCCCS distributes 90% to trauma facilities and 10% to emergency departments. The additional federal match is expected to generate approximately \$13,300,000 annually through December 31, 2013. AHCCCS intends to distribute 40% of the additional money to rural hospitals, 30% to trauma centers, and 30% to emergency departments.

Automation Projects Transfer

The budget includes one-time FY 2014 transfers from this agency's funds associated with its proportionate share of costs for replacement of the state's financial accounting system. (Please see the Automation Projects narrative for more details.)

Tobacco Tax Allocation

Table 7 is a summary of the tobacco tax allocations.

Table 7

Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund

	FY 2012	FY 2013	FY 2014
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 5,050,200	\$ 4,260,800	\$ 2,460,000
Transfer In - Tobacco Tax and Health Care Fund	46,903,400	46,377,400	42,747,000
Transfer In - Tobacco Products Tax Fund	25,580,600	25,284,600	24,732,200
Interest & Refunds	151,600	0	0
Total Funds Available	\$ 77,685,800	\$ 75,922,800	\$ 69,939,200
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 38,295,800	\$ 38,295,800	\$ 37,389,300
Total AHCCCS Allocations	\$ 38,295,800	\$ 38,295,800	\$ 37,389,300
<i>DHS</i>			
Behavioral Health GF Offset	\$ 34,767,000	\$ 34,767,000	\$ 34,767,000
Folic Acid	362,200	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	0	0	300,000
Total DHS Allocations	35,129,200	35,167,000	35,467,000
Balance Forward	\$ 4,260,800	\$ 2,460,000	\$ (2,917,100) ^{1/}
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 19,600	\$ 0	\$ (1,036,300)
Transfer In - Tobacco Products Tax Fund	39,792,000	39,331,600	38,472,300
Total Funds Available	\$ 39,811,600	\$ 39,331,600	\$ 37,436,000
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 39,811,600	40,367,900	38,472,300
Balance Forward	\$ 0	\$ (1,036,300) ^{1/}	\$ (1,036,300) ^{1/}
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 9,300	\$ 0	\$ 0 ^{2/}
Transfer In - Tobacco Products Tax Fund	18,948,600	18,729,300	18,320,100
Total Funds Available	\$ 18,957,900	\$ 18,729,300	\$ 18,320,100
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 18,957,900	\$ 19,222,900	\$ 18,320,100
Balance Forward ^{2/}	\$ 0	\$ (493,600) ^{1/}	\$ 0 ^{1/}
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 8,406,100	\$ 7,741,100	\$ 6,452,300
Transfer In - Tobacco Tax and Health Care Fund	15,516,400	15,238,300	14,045,400
Transfer In - Tobacco Products Tax Fund	1,894,900	1,872,900	1,832,000
Total Funds Available	\$ 25,817,400	\$ 24,852,300	\$ 22,329,700
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 15,745,200	\$ 16,200,000	\$ 16,200,000
Leading Causes of Death - Prevention and Detection	2,331,100	2,200,000	2,200,000
Balance Forward	\$ 7,741,100	\$ 6,452,300	\$ 3,929,700
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,912,000	\$ 10,307,100	\$ 12,275,000
Transfer In - Tobacco Tax and Health Care Fund	4,283,900	3,312,600	3,053,400
Transfer In - Tobacco Products Tax Fund	6,057,500	4,682,300	4,580,000
Total Funds Available	\$ 17,253,400	\$ 18,302,000	\$ 19,908,400
<u>Allocations</u>			
Biomedical Research	\$ 5,946,300	\$ 5,027,000	\$ 5,027,000
Alzheimer's Disease Research	1,000,000	1,000,000	1,000,000
Biotechnology (Laws 2002, Ch. 186)	0	0	0
Balance Forward	\$ 10,307,100	\$ 12,275,000	\$ 13,881,400

^{1/} Actual balances will not be negative.

^{2/} Any unencumbered funds in the Emergency Health Services Account are transferred to the Proposition 204 Protection Account at the end of each year.